COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1696-01
Bill No.: HB 963
Subject: Housing; State Tax Commission; Taxation and Revenue - Property
Type: Original
Date: April 1, 2009

Bill Summary: Would change certain provisions relating to assessed valuation of residential real property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Blind Pension	$0	($1,369,000)	($1,685,650)
Total Estimated Net Effect on Other State Funds	**$0**	**($1,369,000)**	**($1,685,650)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	**$0**	**($104,577,800)**	**($337,150,000)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of the State Auditor,** the **Department of Revenue**, and **Linn State Technical College** assume this proposal would have no fiscal impact on their organizations.

Officials from **Cass County** assume this proposal would have an unknown fiscal impact to their organization.

Officials from **St. Louis County** assume this proposal would require additional staff to track and update records, at an estimated cost of $89,200 per year. In addition, officials estimated there would be a one-time cost of $50,000 for changes to their computer system.

Officials from the **City of Kansas City** assume this proposal may have a unknown negative fiscal impact because of the options given the property owner.

Although they did not respond to our request for information, officials from the **Department of Elementary and Secondary Education** stated that there would be no increased cost to the state's school foundation formula as a result of a similar proposal. There is a likely loss of revenue to political subdivisions including school districts due to the limitation on increasing assessed valuation of certain properties. This loss cannot be estimated.

Officials from the **Office of Administration**, **Division of Budget and Planning** did not respond to our request for information.

ASSUMPTION (continued)

Oversight notes that the proposal would make several changes to the assessment process for personal residences.

Using data provided by the Office of the State Auditor, Oversight calculated an aggregate estimate of the amount of revenue which would be provided to local governments at their current aggregate assessed valuations, if their current levy rates were increased to the maximum authorized levy rates. The calculated amount was $1.1 billion for local governments which levied one overall tax levy rate, and $627 million for local governments which levy individual tax rates by property type. Oversight assumes that these amounts indicate that some local governments would be able to increase their levy rates to compensate for limitations on aggregate assessed valuation. The Oversight calculations that follows are an estimate of the maximum impact for this proposal; if local governments could compensate for the loss of assessed valuation by increasing their levy rates the impact would be reduced below the calculated amount.

Valuation Choice Provisions

A property owner could choose the purchase price of a residence for assessment purposes if the property was purchased within the five years preceding the assessment.

Based on information from the United States Census Bureau, approximately 4.2% of Missouri residents move each year. This proposal would become effective January 1, 2010 for taxes to be collected in December 2010 (FY 2011).

According to the information reported by the State Tax Commission, the 2008 assessed valuation for residential property was $52,202,340,377. According to the United States Census Bureau reports, 70.3% of homes were owner-occupied. Therefore, the 2008 assessed valuation of owner-occupied residences was ($52.2 billion x 70.3%) = $36.7 billion.

Based on information reported by the State Tax Commission, Oversight has calculated that assessed valuations for residential property increase 14% from one reassessment (odd-numbered) year to the next and an average of 2.75% from a reassessment year to the next (even-numbered) year.

ASSUMPTION (continued)

The loss in assessed valuation from this provision could be as shown in this chart.

Year	Years Elapsed	Percent Moved	Valuation Increase Percentage	Estimate of Lost Valuation ($ millions)
2009	1	4.2	2.75	$42.4
2008	2	4.2	14.00	$215.8
2007	3	4.2	16.75	$258.2
2006	4	4.2	28.00	$431.6
2005	5	4.2	30.75	$474.0
Totals				$1,422.0

The local government tax on this loss of assessed valuation could be calculated as ($1.4 billion x $6.13 per $100 assessed valuation) = $85,820,000. A loss of one-half of one percent could be calculated for the state Blind Pension Fund ($85.8 million x .005) = $429,000.

These losses would presumably continue for FY 2012 and subsequent years. The losses would be reduced as properties are sold and reassessed, but property owners over the age of 60 could transfer their assessed valuation to a subsequent property purchase.

ASSUMPTION (continued)

Assessed Valuation Increase Limits

The provisions limiting increases in assessed valuation would also reduce revenues to local governments and the state Blind pension Fund.

Oversight assumes that the two percent limitation on increases in assessed valuation would apply to even-numbered (non-reassessment) years as well as to reassessment years. Oversight will assume for the purposes of this fiscal note that the proposal could take effect in January 2010 for taxes to be collected in December 2010 (FY 2011).

The assessed valuation for 2008 for owner-occupied residential property would be ($52.2 billion x 70.3%) = $36.7 billion. Based on historic trends, the assessed valuation of that property would be expected to increase (14% - 2.75%) = 11.25% from 2008 to 2009 and the eligible 2009 assessed valuation would be $40.8 billion.

For 2010 (FY 2011), the assessed valuation increase would be limited by the proposal, resulting in a loss in assessed valuation of (2.75% - 2.0%) = 0.75% and the lost assessed valuation would be ($40.8 billion x 0.75%) = $306 million. The reduction in local government revenue would be ($306 million x $6.13 per $100 assessed valuation) = $18,757,800.

The state Blind Pension Fund would have a revenue reduction of one-half of one percent of the local government revenue reduction or ($18.8 million x .005) = $940,000.

For 2011 (FY 2012), the assessed valuation increase would again be limited by the proposal, resulting in a lost assessed valuation increase of (14% - 4%) = 10%. The loss in assessed valuation would be ($40.8 billion x 10%) = $4.1 billion. The revenue reduction would be ($4.1 billion x $6.13 per $100) = $251,330,000.

The state Blind Pension Fund would have a revenue reduction of one-half of one percent of the local government revenue reduction or ($251.3 million x .005) = $1,256,650.

ASSUMPTION (continued)

Reassessment on Change in Ownership

Oversight assumes that the provision authorizing a property to be reassessed after a change in ownership would eventually result in a significant increase in the assessed valuation of that property after the assessed valuation was limited due to other provisions in this proposal. However, under current provisions related to property assessment, this provision would not appear to have any fiscal impact.

Assessed Valuation Transfer Provision

The provision allowing a homeowner over the age of 60 to transfer the assessed valuation of his residence to another residence would not be expected to have a significant fiscal impact until after FY 2012.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
BLIND PENSION FUND			
Revenue reduction - valuation choice provision	$0	($429,000)	($429,000)
Revenue reduction - assessed valuation growth limitation	$0	($940,000)	($1,256,650)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($1,369,000)**	**($1,685,650)**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL GOVERNMENTS			
Revenue reduction - valuation choice provision	$0	($85,820,000)	($85,820,000)
Revenue reduction - assessed valuation growth limitation	$0	($18,757,800)	($251,330,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**($104,577,800)**	**($337,150,000)**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would change certain provisions relating to assessed valuation of residential real property.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of the State Auditor
Department of Revenue
Cass County
St. Louis County
Linn State Technical College
City of Kansas City

Mickey Wilson

Mickey Wilson, CPA
Director
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